

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Inbound Competitive Multi Service Agreements
With Foreign Postal Operators
Canada Post Corporation—United States Postal Service
Bilateral Agreement (MC2010-34)
Negotiated Service Agreement

Docket No. CP2018-96

PUBLIC REPRESENTATIVE COMMENTS ON MODIFICATION THREE

(December 18, 2019)

The Public Representative hereby provides comments pursuant to Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings.¹ In that PRC Notice, the Commission solicits comments from interested persons, including the undersigned Public Representative, on Modification Three as described in the Notice² filed by the Postal Service. Modification Three applies to the bilateral agreement for inbound competitive services with the Canada Post Corporation (Canada Post). The modification extends the general terms of the bilateral agreement to June 30, 2020. Notice at 1. And, it applies new rates to inbound competitive services included in the agreement. *Id.*

COMMENTS

The Public Representative has reviewed Modification Three and the supporting financial model filed under seal that accompanied the Postal Service's Notice. Based upon that review, the Public Representative concludes that Modification Three should be approved.

¹ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, December 11, 2019 (PRC Notice).

² Notice of United States Postal Service (Notice).

Functional Equivalence. Modification Three does not alter the products being offered under the contract nor does it significantly change the contract's cost characteristics. Therefore, Modification Three has no impact on the functional equivalence of the contract with the baseline agreement.

Volume Estimates. In her comments³ regarding Canada Post 2018 Agreement⁴, the Public Representative urged the Postal Service to refrain from using forecasted volume in its financial model. She also pointed out that the Postal Service did not provide its volume forecast methodology to the Commission.

In its financial model for Modification Three, the Postal Service uses forecasted volumes. It did not provide its forecast methodology. There is no evidence on the record to indicate that the projected volumes are not speculation.

As the Public Representative previously explained, inaccurate volume forecasts can make an agreement that fails to cover cost appear to have adequate cost coverage, if low cost coverage categories are weighted down and high cost coverage categories are weighted up. The Public Representative urges the Commission to order the Postal Service to use existing volumes in its financial models. If the Postal Service intends to use forecasted volumes in the future, it should petition the Commission to consider its volume forecast methodology in a rulemaking docket.

39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service's competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

The Postal Service's financial model indicates that the negotiated rates in Modification Three will generate sufficient revenues to cover cost. The Public

³ Public Representative Comments on Postal Service Notice of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with a Foreign Postal Operator, December 26, 2017.

⁴ Order Approving Additional Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement, December 28, 2017 (Order No. 4309).

Representative calculated cost coverage using existing volumes. Although, using existing volumes did not alter the conclusion that Modification Three covers cost, the cost coverage generated by Modification Three was reduced slightly. She also concludes Modification Three will not impair the ability of Competitive products to cover the appropriate share of institutional costs.

CONCLUSION

The Public Representative recommends that the Commission approve the Modification Three. The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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